Oswal Pumps Ltd

Ratings upgraded to 'CRISIL A/Stable/CRISIL A1'

Rating action

Total bank loan facilities rated	**Rs 176.5 crore**
Long-term rating	**CRISIL A/Stable (upgraded from 'CRISIL A-/Stable')**
Short-term rating	**CRISIL A1 (upgraded from 'CRISIL A2+')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million
Refer to annexure for details of instruments & bank facilities

Detailed rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Oswal Pumps Ltd (OPL; part of the Oswal group) to **'CRISIL A/Stable/CRISIL A1'** from 'CRISIL A-/Stable/CRISIL A2+'.

The rating upgrade reflects the sustained improvement in the business risk profile of OPL driven by steady revenue growth and sound operating efficiencies. Backed by regular demand from existing customers and addition of customers, the revenue rose at an estimated compound annual growth rate of 58% over three years through fiscal 2024. Moreover, with a healthy ramp-up so far in fiscal 2025 and order book of around Rs 821 crore as of July 2024, the revenue is expected at Rs 1,300-1,350 crore during the fiscal (*estimated at Rs 498 crore till July 2024)*. Operating efficiency, on the other hand, stands improved too evident by operating margin of 20.31% during fiscal 2024, improved from 16.35% during previous fiscal. With optimum capacity utilization and strong control on overheads, operating profitability shall continue to remain steady at 20-21% over the medium term as well. This, along with efficient working capital management, shall further strengthen the return on capital employed, which was estimated at 69.85% during fiscal 2024.

The upgrade also factors in the Oswal group's healthy financial risk profile with sustained and healthy accretion to reserve resulting in low leverage, and steady increase in operating profitability in comfortable debt protection metrics. Absence of debt-funded capital expenditure (capex) and expected accretion to reserve will result in gearing of 0.3-0.5 time over the medium term. Interest coverage and net cash accrual to adjusted debt ratio will also remain healthy at 21-22 times and 1.7-1.8 times, respectively. Liquidity is likely to remain supported by excess of net cash accrual over debt obligation, cushion available in bank lines and need-based financial support from the promoters.

The ratings continue to reflect the Oswal group's established market position in the water pumps industry, its sound operating efficiency and robust financial risk profile. These strengths are partially offset by the group's large working capital requirement and moderate scale of operations.

Analytical approach: CRISIL Ratings has combined the business and financial risk profiles of OPL and its wholly owned subsidiary, Oswal Solar Structure Pvt Ltd (OSSPL). Both the companies, together referred to as the Oswal group, have the same promoters, are in the same business, and have significant operational linkages and fungible cash flows.

Key rating drivers & detailed description

Strengths:

Established market position: The promoters' experience of over three decades in the water pumps industry has helped the Oswal group build a strong product portfolio, which includes stainless steel submersible pumps, motors, monoblock pumps and solar pumps. The promoters have forged relationships with more than 2,000 distributors, apart from original equipment manufacturers, which has helped garner regular orders over the years. Resultantly, OPL clocked healthy CAGR of 58% in revenue over the past three fiscals and may post on-year growth of 60-65% in fiscal 2025, with Rs 498 crore booked till July 2024. The order book of Rs 821 crore as of July 2024 provides revenue visibility over the medium term. The business risk profile of OPL is expected to strengthen on account of government initiatives. For instance, the PM Kusum scheme to replace grid pumps with solar pumps by way of providing subsidy benefits will increase the demand for solar pumps, as seen over the past few fiscals.

Sound operating efficiency: The operating profitability has increased over the past few fiscals, driven by improved penetration in the solar pump segment (which has *higher realisations)*, backward integration, and economies of scale. The operating margin improved to 21.49% during fiscal 2024 from 9% during fiscal 2020, with sustained business growth. This, along with moderate dependence on external debt, boosted the return on capital employed, which is expected to increase to 70-72% over the medium term from 9.73% during fiscal 2020. Steady ramp-up in operations will result in economies of scale, thereby sustaining the healthy operating efficiency.

Robust financial risk profile: OPL will likely sustain its healthy capital structure, with networth expected at Rs 160-170 crore and gearing at 0.3-0.5 time over the medium term, supported by accretion to reserve. Debt protection metrics have been comfortable due to healthy profitability. The interest coverage and net cash accrual to adjusted debt ratio are expected to remain healthy at 21-22 times and 1.7-1.8 times, respectively, over the medium term. CRISIL Ratings believes OPL's financial risk profile will remain stable over the medium term, despite the anticipated debt for meeting the growing business requirement, supported by healthy accrual and the absence of large capex.

Weaknesses:
Large working capital requirement: The operations are likely to remain working capital intensive with gross current assets (GCAs) expected at 200-220 days over the medium term. The GCAs are estimated at 171 days as on March 31, 2024. As counterparties remain government authorities, the receivables cycle is long, at 120-150 days, and shall remain so. The working capital requirement further increase on account of inventory holding of 2-3 months, though it is partly supported by similar credit from suppliers. Though the increase in working capital requirement has been managed by regular enhancement in bank lines, the bank line utilisation was high at 80-90% in a few months. With steady growth in the business, efficient working capital management leading to lower reliance on external debt will remain monitorable.

Moderate scale of operations: Despite steady growth in the past few fiscals, the revenue remains moderate, estimated at Rs 800 crore during fiscal 2024, (Rs 390 crore during fiscal 2023). Though the business growth will be supported by the healthy order book and government initiatives such as PM Kusum yojana, which leads to the revenue of Rs 440 crores in April to June 24 (FY 2025), the Oswal group’s ability to consistently increase the order book while maintaining its operating profitability, will remain monitorable. Group has consistently penetrated different geographies through a varied product mix, thereby aiding its sustained revenue growth over the fiscals. Going forward, group’s ability to further tackle the expected increase in competition from both organised and unorganized players, resulting into an improved business risk profile, will remain a key rating sensitivity factor.

Liquidity: Strong
The Oswal group will maintain its strong liquidity profile driven by expected cash accrual of Rs 200-210 crore per annum over the medium term against annual debt obligation of Rs 3-4 crore, which will help cushion strategic investments and capex. The group has access to a fund-based bank limit of Rs 195 crore, which was utilised 65%, on average, over the 12 months through June 2024. The

current ratio is expected at 1.7-1.8 times over the medium term (1.42 times as on March 31, 2024). Low gearing and moderate networth support the group's financial flexibility to withstand adverse conditions or downturn in the business.

Outlook: Stable
OPL will continue to benefit from its established market position and healthy order book providing strong revenue visibility over the medium term.

Rating sensitivity factors

Upward factors

- Sustained and significant increase in revenue with operating margin steady at 22.0-23% resulting in healthy net cash accrual
- Efficient working capital management leading to reduced reliance on external debt and an improved financial risk profile and liquidity

Downward factors

- Decline in revenue to below Rs 800 crore or fall in the operating margin, resulting in lower net cash accrual
- Stretch in the working capital cycle leading to increase in external debt, impacting the financial risk profile and liquidity

About the group

OPL was incorporated in 2000 as a private limited company by Mr Padam Sain Gupta and his sons Mr Rajeev Gupta and Mr Vivek Gupta. It was reconstituted as a closely held limited company in January 2007. Based in Haryana, OPL manufactures solar submersible pumps, grid submersible pumps, monoblock pumps and electric motors, which are sold in the domestic as well as overseas markets. The company also trades in agricultural equipment.

OSSPL is a 100% subsidiary of OPL and manufactures solar panels, cast iron and photovoltaic (PV) modules for solar panels. The company was incorporated in January 2022, but commenced commercial operations in October 2023.

Key financial indicators (standalone)

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	776.50	393.12
Reported profit after tax (PAT)	Rs crore	99.77	33.88
PAT margin	%	12.85	8.62
Adjusted debt/adjusted networth	Times	0.39	0.55
Interest coverage	Times	11.85	11.74

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Annexure - Details of instrument(s)

ISIN	**Name of instrument**	**Date of allotment**	**Coupon rate**	**Maturity date**	**Issue size (Rs crore)**	**Complexity level**	**Rating assigned with outlook**
NA	**Cash credit**	NA	NA	NA	**55**	**NA**	CRISIL A/Stable

NA	Inland/import letter of credit	NA	NA	NA	**35**	**NA**	CRISIL A1
NA	Non-fund based limit	NA	NA	NA	**56.5**	**NA**	CRISIL A1
NA	Packing credit	NA	NA	NA	30	NA	CRISIL A/Stable

Annexure – List of entities consolidated

Names of entities consolidated	**Extent of consolidation**	**Rationale for consolidation**
Oswal Pumps Ltd	Full	Parent subsidiary relationship
Oswal Solar Structure Pvt Ltd	Full	Parent subsidiary relationship

Annexure - Rating history for last three years

	Current			**2024 (History)**		**2023**		**2022**		**2021**		**Start of 2021**
Instrument	**Type**	**Outstanding amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund-based facilities	LT	85.0	-	02-02-24	CRISIL A-/Stable	29-12-23	CRISIL A-/Stable		--	20-07-21	Withdrawn (Issuer Not Cooperating)*	CRISIL B+/Stable(Issuer Not Cooperating)*
			--	24-01-24	CRISIL A-/Stable	02-02-23	CRISIL BBB/Positive		--	15-06-21	CRISIL B+/Stable(Issuer Not Cooperating)*	--
Non-fund-based facilities	ST	91.5	-	02-02-24	CRISIL A2+	29-12-23	CRISIL A2+		--	20-07-21	Withdrawn (Issuer Not Cooperating)*	CRISIL A4 (Issuer Not Cooperating)*
			--	24-01-24	CRISIL A2+	02-02-23	CRISIL A3+		--	15-06-21	CRISIL A4 (Issuer Not Cooperating)*	--

All amounts are in Rs crore.

Annexure – Details of bank lenders/facilities

Facility	**Amount (Rs crore)**	**Name of lender**	**Rating**
Cash credit	30	State Bank of India	CRISIL A/Stable

Cash credit	25	Union Bank of India	CRISIL A/Stable
Inland/import letter of credit	35	State Bank of India	CRISIL A1
Non-fund based limit	41.5	Union Bank of India	CRISIL A1
Non-fund based limit	15	State Bank of India	CRISIL A1
Packing credit	10	Union Bank of India	CRISIL A/Stable
Packing credit	20	State Bank of India	CRISIL A/Stable